



# SBA Procedural Notice

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**TO:** To All Employees

**CONTROL NO.:** 5000-779

**SUBJECT:** Guidelines for Implementation of the  
Fee Reduction on Loans to Small  
Businesses Adversely Affected by  
the Terrorist Activities of September  
11, 2001

**EFFECTIVE:** 1-31-2002

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SBA Procedural Notice 5000-775 provided information regarding the 7(a) program fee reduction authorized in the Defense Appropriations Act of 2002 which was signed into law on January 11, 2002. The purpose of this notice is to provide more detailed guidance on the implementation of that fee reduction. In order to distinguish loans made under the Defense Appropriations Act from other 7(a) loans made during the same period, loans with the fee reduction will be known as “Supplemental Terrorist Activity Relief” (“STAR”) loans.

## **1. Background Information on SBA’s Annual Fee**

Section 7(a)(23) of the Small Business Act authorizes SBA to collect an annual fee on each outstanding SBA guaranteed loan equal to 0.5 percent (50 basis points) of the guaranteed share of the outstanding balance of the loan. The Defense Appropriations Act authorized a reduction in that fee from 0.5 percent to 0.25 percent (25 basis points) for loans made to small businesses adversely affected by the September 11<sup>th</sup> attacks. This reduced fee will apply for the life of the loan. Both the original and the temporarily reduced fees are subject to the provisions of Section 7(a)(23)(B) which states that this fee is “. . . payable by the participating lender and shall not be charged to the borrower.”

## **2. Period of Applicability**

The reduction in the annual fee is effective for eligible loans approved (funded) by SBA between January 11, 2002, and January 10, 2003, or until the approximate \$4.5 billion program level provided for this initiative has been used up, whichever occurs first.

Any 7(a) loan approved before January 11, 2002, will continue to be subject to the 50 basis points fee, subject to the following exception. If the lender finds that a borrower that had its 7(a) loan approved prior to January 11, 2002, was adversely affected by the terrorist actions, AND, if the loan is fully undisbursed; the lender may cancel the approved loan and submit a new application which will then meet the criterion of having been approved after January 10, 2002. If SBA approves the new loan, a new loan number must be issued.

## **3. Definition of “Adversely Affected” Small Business**

As indicated in the previous notice, for purposes of the STAR program, the term “adversely affected small business” means a small business that suffered economic harm or disruption of its business operations as a direct or indirect result of the terrorist attacks perpetrated against the United States on September 11, 2001. Some examples of economic harm are: difficulty in making loan payments on existing debt; difficulty in paying employees or vendors; difficulty in purchasing materials, supplies, or inventory; difficulty in paying rents, mortgages, or other

operating expenses; and, difficulty in securing financing. As previously noted, SBA does not intend that this list be considered all-inclusive. The Agency anticipates that there will be other circumstances that are appropriate for use to illustrate that a business has suffered economic harm or a disruption of its business operations. Agency guidance should not be construed as limiting eligibility to any particular geographic area or to any specific type(s) of business. A loan to a start-up business may qualify for the STAR program if, for example, the business planned to commence operations earlier, but its ability to do so was hampered by the terrorist actions and their aftermath.

SBA believes that a high percentage of businesses finding it necessary to seek SBA-guaranteed financing may be found to have been adversely affected by the terrorist actions. In order to qualify for the reduced fee, however, the lender must: 1) find that the loan applicant was adversely affected by the terrorist events of September 11, 2001; AND, 2) prepare and maintain in its loan file a write up summarizing its analysis and its conclusion that the loan is eligible for the STAR program. A lender will not be found to have met its responsibility for determining that a borrower was adversely affected if the lender statement merely states that conclusion, but does not provide a narrative justification demonstrating the basis for the conclusion.

#### **4. Steps Required for Lender to Submit a STAR program Application**

In order for a loan to qualify as a loan under STAR, the SBA lender must:

- a) Determine that the applicant business was “adversely affected” by the terrorist activity of September 11, 2001, and must document the basis for this conclusion in its loan file. This documentation must be available for review by SBA, but need not be submitted to SBA.
- b) Indicate that the loan is being submitted under the STAR program by writing “STAR Loan” at the top of the SBA Form 4-I, “Lender’s Application for Guaranty or Participation,” or 4-L, “Application for LowDoc Loan,” as applicable.
- c) Amend the loan authorization provision regarding the on-going fee to be paid to SBA on the loan to indicate that the fee will be 0.25% per annum.

#### **5. Collection of the Reduced Fee**

Lenders will submit to Colson Services, Inc. (Colson), the 0.25 percent fee using the same SBA Form 1502 process as it uses for other SBA loans. SBA will provide Colson with a list of loans that are subject to the lower fee. As with all other fee collections, Colson will work with a lender to make any necessary corrections to the fee and reporting submissions.

#### **6. PLP/SBAExpress/Community Express**

The PLP center will provide additional direction to PLP lenders regarding STAR program requirements.

#### **7. Processing STAR Loan Requests**

The SBA Loan Accounting Tracking System (LATS) has been modified to provide a STAR program indicator to track STAR loans. Data must be entered into this indicator field as follows:

- 1) An “S” must be entered for any loan submitted by the lender under the STAR program; and,

2) An “N” (for “no”) must be entered for any non-STAR loan. This data field must be completed for each loan (including a 504 loan) even if the loan is not STAR eligible.

When the STAR Indicator is filled in with an “S”, it will mean that:

- a) The lender has informed SBA that the loan is eligible for the STAR program;
- b) The lender will be charged the reduced 0.25 % annual fee;
- c) The loan will be subject to the STAR program subsidy rate; and
- d) The loan will be funded out of the separate STAR loan fund.

There are four sets of circumstances that may occur in connection with a loan that is potentially eligible for the STAR program. The attachments to this Notice (described below) provide instructions for SBA’s data input under each of these circumstances.

**A. New Loan Application Submitted by a Lender after the Effective Date of this Notice**

The Star program Indicator field shown on LAS001 must be completed as part of the data input for all new loan applications. For any loan designated by a lender as a STAR loan, the “S” designation must be entered. For any non-STAR loan the “N” designation must be entered. [Attachment A provides instructions for processing a STAR-qualified loan submitted to SBA by a lender after the effective date of this notice.]

**B. Re-Classification of a Loan after Submission, but Prior to SBA Approval**

If a loan was originally input as a non-STAR loan, but prior to SBA’s approval, the lender provides a written request to SBA to reclassify the loan as a STAR loan, the SBA processing office must use the LSA005 Screen to input an “S” in the STAR program indicator field. [Attachment B provides instructions for re-classifying a loan as a STAR-qualified loan after SBA’s initial data input, but prior to SBA approval.]

**C. Re-Classifying a Loan as a STAR loan after Approval but before Disbursement**

For any loan approved by SBA on or after January 11, 2002, that was not initially classified as a STAR loan; if, subsequent to SBA approval and prior to any disbursement, the lender provides a written request to SBA to reclassify the loan as a STAR loan, the SBA field office servicing the loan must:

- 1. Verify that the loan is fully undisbursed;
- 2. Prepare a SBA Form 327 action to support cancellation of the regular 7(a) funded loan and re-instatement of the loan as a STAR loan;
- 3. Cancel the existing loan, thus returning the regular 7(a) funds to the regular 7(a) program account; and,
- 4. Wait at least one business day after completing step 3 and reinstate the loan and enter an “S” in the STAR Indicator on LAB00 screen.

[Attachment C provides instructions for re-classifying a fully undisbursed loan as STAR-qualified after approval by SBA.]

**D. Re-Classifying a Loan as a STAR Loan after Full or Partial Disbursement**

If a loan was approved by SBA on or after January 11, 2002, and is partially or fully disbursed when the lender makes a written request that the loan be reclassified as a STAR loan, two

additional steps must be taken. First, SBA must reverse the amount disbursed to show a loan balance of zero. Then, after the proper classification is entered, SBA must re-enter the amount disbursed to return the loan to its actual condition. [Attachment D provides instructions for re-classifying a partially or fully disbursed loan as a STAR loan.]

## **9. Post Approval Modifications**

Any increases to an existing STAR loan or reclassifications of a non-STAR to a STAR loan must be completed prior to January 10, 2003, or before the use of all available funds, whichever occurs first. After expiration of the STAR program authority, any additional required funding will require a new loan application processed under the regular 7(a) program. For small increases, lenders may want to establish separate side notes.

## **10. Referrals from the Disaster Program**

As you are aware, after the September 11<sup>th</sup> attacks, SBA published regulations that expanded the availability of the Agency's Economic Injury Disaster Loan (EIDL) program to small businesses which have suffered substantial economic injury as a direct result of the terrorist attacks and certain related Federal action. See 66 Federal Register 53329 (October 22, 2001). Despite this program expansion, however, there may be some circumstances where a small business that is found ineligible for an EIDL loan may be found to qualify for a STAR loan. Therefore, when appropriate, the Office of Disaster Assistance (ODA) will advise a business that it may qualify for other SBA assistance, and may refer such business to the appropriate SBA field offices. Field staff should be prepared to discuss SBA's loan programs, including STAR, with the businesses, and should also make referrals for assistance to one of the Agency's management and technical assistance partners, when appropriate.

## **11. Questions**

Lenders should contact their local SBA field office for more information regarding the STAR program. Field staff with questions on how to input data to classify a loan as a STAR loan should contact David Kimble at (202) 205-6299. SBA staff with questions on any other issues related to STAR should contact A. B. McConnell, Jr. at (202) 205-7238.

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Jane Palsgrove Butler  
Associate Administrator  
for Financial Assistance

Expires: 1-01-2003

**ATTACHMENT “A”**  
**LSA001 - Initial Application Screen**  
Use To Identify a STAR Loan at Time of Application

```
LSA001              INITIAL INPUT FORMAT              01/22/02
CID NUMBER GENERATED: 000000000000              LOANOFFCR:
                                                LOANOFFCRCD: 00

DT APL RECD: 000000
APPL NAME:              Y2K APPLICATION: (Y/N)
TRADE NAME:              STAR: (S/N)
APPL STREET:              ALPHA CODE:
APPL CITY:              APPL STATE:
APPL TEL NR: ( 000) 000- 0000              APPL ZIP CD:
PART NAME:              PART ID NUM: -
PART STREET:              PART STATE:
PART CITY:              PART ZIP CD:
TOT REQST $: 00000000.00              FOR CLP (Y), CAIP (C):N
PREQUALIFICATION (1-9) 0
(1) WOB      (4) WET      (7) 8(a)/SDB              FISH RESTRUT: (Y/N):
(2) MIN      (5) SM BUS    (8) DISABLE              ONE STOP SHOP CD:
(6) RURAL    (9) SPEC IND
                                                0000
                                                0000
                                                0000

*** PLEASE NOTE: DATE/PA ENTERED IN THIS DISPLAY ARE MMDDYY FORMAT ***
```

Enter an “S”  
to designate a  
STAR Loan.  
Enter an “N”  
for a Non-  
STAR Loan

This field  
must be  
completed.

The LSA001 Screen is used to introduce a loan into the LATS System. Any 7(a) loan classified by the lender as a STAR loan should be identified through this screen.

Every loan funded through LATS must now have the STAR Indicator completed. For non-STAR loans (including 504s), enter an “N” in the indicator field.

## ATTACHMENT “B”

### LSA005 – APPROVE LOAN APPLICATION RECORD PART A

Used to Re-Classify as a STAR Loan after Submission, but Prior to SBA Approval

```
LSA005 010102012201  APPROVE LOAN APPLICATION RECORD PART A      01/22/02
LOAN NUMBER: 5113754007

BORR  NAME: APPLICATION NAME LSA001      SOC SEC NUM: 000- 00- 0000
TRADE  NAME: TRADE NAME                  EMPLOYER ID: 00- 0000000
BORR STREET: 409 3RD STREET              ALPHA  CODE: SBACT
BORR  CITY: WASHINGTON                   BORR  STATE: DC
BORR TEL NR: ( 202) 205- 6599            BORR ZIP CD: 20416
PART  NAME: CASCADES W. FINAN SERVICES INC PART ID NUM: C381750- 898
PART STREET: 1400 QUEEN AVENUE, S.E., POB 6 PART  STATE: OR
PART  CITY: ALBANY                      PART ZIP CD: 97321
STATE CODE: 00                          LOAN  TYPE: 7
COUNTY CODE: 000                      SERV GRP CD: 0
STAR: S  (ENTER "S" FOR STAR OR "N" FOR NON-STAR)
```

Before loan is disbursed, make sure the **STAR** indicator has an “S” or “N” as appropriate.

The LSA005 Screen allows you to make changes to the account records of a loan before that loan is disbursed.

Make sure there is either a “S” or a “N” (as appropriate) in the STAR Indicator field.

# ATTACHMENT "C"

## LAB000 - 7(A) 327 Screen

Use to Re-Classify as a STAR loan after Approval but before Disbursement

```

XABH04          BLIF LOAN APPROVAL          DATE: 01/22/02
                  CHANGE                     TIME: 09:11:25
LOAN NR: 42572940-05 ( ) OFFICE NR: 0101 EFF/FUND DT: ( )
BORROWER'S NAME: LA VITE E L'UVA, INC.
= = CURRENT NET APPROVAL VALUES = = = = = REVISED NET APPROVAL VALUES = = =
: SBA           312,188.00 ( ) : : SBA           _____ ( ) :
: BANK          104,062.00 ( ) : : BANK          _____ ( ) :
:              ----- : :              ----- :
: TOTAL         416,250.00 ( ) : : TOTAL         _____ ( ) :
= = = = =
: LOAN TYPE      07 ( ) : : LOAN TYPE      ( ) :
: SUBPROGRAM CODE 1003 ( ) : : SUBPROGRAM CODE ( ) :
: STAR           ( ) : : STAR           ( ) :
= = = = =
: SBA PERCENT    75.000 ( ) : : SBA PERCENT    L_____ ( ) :
: BANK PERCENT   25.000 ( ) : : BANK PERCENT   _____ ( ) :
= = = = =
: SBA INTEREST RATE ( ) : : SBA INTEREST RATE _____ ( ) :
: BANK INTEREST RATE 10.000 ( ) : : BANK INTEREST RATE _____ ( ) :
= = = = =
ENTER 'X' TO CANCEL LOAN: _
ENTER FUNCTION: _ NEXT LOAN NUMBER: _
*** VALID FUNCTIONS: 1=NEW 327, 2=QUERY, 3=DELETE, 5=MENU, 9=SIGNOFF ***

```

Enter an "S" to designate a STAR loan, and an "N" to designate a non-STAR loan.

On day one, cancel the loan approval to return the full, obligated amount to the regular 7(a) program fund. On day two, reinstate the loan and enter an "S" in the STAR Indicator field. This will cause the loan funds to be obligated from the STAR program fund. Note: If the lender has already paid the guaranty fee before these actions are taken, the accounting system will automatically generate a rebate of the guaranty fee. The lender must then re-submit this

## **ATTACHMENT D**

### **Use to Re-Classify as a STAR loan after Approval and Disbursement**

#### **Procedures for Changing Loans that are Partially or Fully Disbursed**

For 7(a) guaranty loans that are partially or fully disbursed, the procedures used are the same as for loans that have changes to the sub program code. This is a 4-step procedure and takes 5 business days of loan updating cycles in order to change funding. Access to 2 systems, the LAB000 (327 Loan Approval Change Screen) and the PMGI01 (SBA Guaranty Loan Reporting System) are required.

1. On day one, access the PMGI01 system. Choose screen PMGI06 to access the 1502 template for your loan. Before making any changes, print the screen for future reference when completing step 4. On the 1502 template, enter the total gross approval amount in “Total Amount Undisbursed,” leave all other areas blank or delete all other information, and then update. Note the PMGI01 screens are only accessible from the 1<sup>st</sup> to the 20<sup>th</sup> day of each month.
2. On day two, verify that the loan is shown as “in approval” status (that is, shown as fully undisbursed). If so, go to the LAB000 system and cancel the full amount of the loan approval.
3. On day three, verify that the loan is in “canceled” status. If so, go to the LAB000 system and reinstate the loan approval entering the revised net approval values and entering an “S” in the STAR indicator field.
4. On day four, verify that the loan is in “approval” status. If so, access the 1502 template for the loan (PMGI06), and enter the required information. For disbursed loans you must enter a next installment due date, interest paid through date, amount undisbursed (if any, gross share) and total outstanding principal.
5. On day five, verify that the loan is shown as in “regular servicing” with the correct principal balance and undisbursed balance (if any).

Note: If the lender has already paid the guaranty fee before these actions are taken, the accounting system will automatically generate a rebate of the guaranty fee. The lender must then re-submit this fee.